MONETARY POLICY STATEMENT

PRESS CONFERENCE

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Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to raise the three key ECB interest rates by 75 basis points. With this third major policy rate increase in a row, we have made substantial progress in withdrawing monetary policy accommodation. We took today's decision, and expect to raise interest rates further, to ensure the timely return of inflation to our two per cent medium-term inflation target. We will base the future policy rate path on the evolving outlook for inflation and the economy, following our meeting-by-meeting approach.

Inflation remains far too high and will stay above our target for an extended period. In September, euro area inflation reached 9.9 per cent. In recent months, soaring energy and food prices, supply bottlenecks and the post-pandemic recovery in demand have led to a broadening of price pressures and an increase in inflation. Our monetary policy is aimed at reducing support for demand and guarding against the risk of a persistent upward shift in inflation expectations.

The Governing Council also decided to change the terms and conditions of the third series of targeted longer-term refinancing operations (TLTRO III). During the acute phase of the pandemic, this instrument played a key role in countering downside risks to price stability. Today, in view of the unexpected and extraordinary rise in inflation, it needs to be recalibrated to ensure that it is consistent with the broader monetary policy normalisation process and to reinforce the transmission of our policy rate increases to bank lending conditions. We therefore decided to adjust the interest rates applicable to TLTRO III from 23 November 2022 and to offer banks additional voluntary early repayment dates.

Finally, in order to align the remuneration of minimum reserves held by credit institutions with the Eurosystem more closely with money market conditions, we decided to set the remuneration of minimum reserves at the ECB's deposit facility rate.

The decisions taken today are set out in a press release available on our website. The details of the changes to the TLTRO III terms and conditions are described in a separate press release to be published at 15:45 CET. Another technical press release, detailing the change to the remuneration of minimum reserves, will also be published at 15:45 CET.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

Economic activity

Economic activity in the euro area is likely to have slowed significantly in the third quarter of the year, and we expect a further weakening in the remainder of this year and the beginning of next year. By reducing people's real incomes and pushing up costs for firms, high inflation continues to dampen spending and production. Severe disruptions in the supply of gas have worsened the situation further, and both consumer and business confidence have fallen rapidly, which is also weighing on the economy. Demand for services is slowing, after a strong performance in previous quarters when those sectors most affected by the pandemic-related restrictions reopened, and survey-based indicators for new orders in the manufacturing sector are falling. Moreover, global economic activity is growing more slowly, in a context of persistent geopolitical uncertainty, especially owing to Russia's unjustified war against Ukraine, and tighter financing conditions. Worsening terms of trade, as the prices paid for imports rise faster than those received for exports, are weighing on incomes in the euro area.

The labour market continued to perform well in the third quarter, and the unemployment rate remained at the historically low level of 6.6 per cent in August. While short-term indicators suggest that jobs were still being created in the third quarter, the weakening of the economy could lead to somewhat higher unemployment in the future.

To limit the risk of fuelling inflation, fiscal support measures to shield the economy from the impact of high energy prices should be temporary and targeted at the most vulnerable. Policymakers should provide incentives to lower energy consumption and bolster energy supply. At the same time, governments should pursue fiscal policies that show they are committed to gradually bringing down high public debt ratios. Structural policies should be designed to increase the euro area's growth potential and supply capacity and to boost its resilience, thereby contributing to a reduction in medium-term price pressures. The swift implementation of the investment and structural reform plans under the Next Generation EU programme will make an important contribution to these objectives.

Inflation

Inflation rose to 9.9 per cent in September, reflecting further increases in all components. Energy price inflation, at 40.7 per cent, remained the main driver of overall inflation, with an increasing contribution from gas and electricity prices. Food price inflation also rose further, to 11.8 per cent, as high input costs made food production more expensive.

Supply bottlenecks are gradually easing, though their lagged impact is still contributing to inflation. The impact of pent-up demand, while weakening, is still driving up prices in the services sector. The depreciation of the euro has added to the build-up of inflationary pressures.

Price pressures are evident in more and more sectors, in part owing to the impact of high energy costs feeding through to the whole economy. Measures of underlying inflation have thus remained at elevated levels. Among those measures, inflation excluding energy and food rose further to 4.8 per cent in September.

Strong labour markets are likely to support higher wages, as is some catch-up in wages to compensate for higher inflation. Incoming wage data and recent wage agreements indicate that the growth of wages may be picking up. Most measures of longer-term inflation expectations currently stand at around two per cent, although further above-target revisions to some indicators warrant continued monitoring.

Risk assessment

The incoming data confirm that risks to the economic growth outlook are clearly on the downside, especially in the near term. A long-lasting war in Ukraine remains a significant risk. Confidence could deteriorate further and supply-side constraints could worsen again. Energy and food costs could also remain persistently higher than expected. A weakening world economy could be an additional drag on growth in the euro area.

The risks to the inflation outlook are primarily on the upside. The major risk in the short term is a further rise in retail energy prices. Over the medium term, inflation may turn out to be higher than expected if there are increases in the prices of energy and food commodities and a stronger pass-through to consumer prices, a persistent worsening of the production capacity of the euro area economy, a persistent rise in inflation expectations above our target, or higher than anticipated wage rises. By contrast, a decline in energy costs and a further weakening of demand would lower price pressures.

Financial and monetary conditions

Bank funding costs are increasing in response to the rise in market interest rates. Borrowing has also become more expensive for firms and households. Bank lending to firms remains robust, as they need to finance high production costs and build up inventories. At the same time, demand for loans to finance investment has continued to decline. Lending to households is moderating, as credit standards have tightened and demand for loans has decreased in a context of rising interest rates and low consumer confidence.

Our most recent bank lending survey reports that credit standards tightened for all loan categories in the third quarter of the year, as banks are becoming more concerned about the deteriorating outlook for the economy and the risks faced by their customers in the current environment. Banks expect to continue tightening their credit standards in the fourth quarter.

Conclusion

Summing up, today we have raised the three key ECB interest rates by 75 basis points, and expect to raise interest rates further, to ensure the timely return of inflation to our medium-term target. With this third major policy rate increase in a row, we have made substantial progress in withdrawing monetary policy accommodation. The changes to the terms and conditions of our targeted longer-term refinancing operations will also contribute to the ongoing policy normalisation process.

Our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach. We stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to our medium-term inflation target.

We are now ready to take your questions.

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Could you tell us whether you are comfortable with the expectation that interest rate steps are going to slow after today's decision and peak somewhere around 3% next year?

Secondly: since we're now at the lower end of the neutral rate estimates, would it be fair to assume that the ECB could be ready to lay out a plan for reducing its balance sheet at its next meeting in December?

So that is a bag of questions that you put into one question! What we have done with the decision taken today is making yet more progress in withdrawing the accommodative [policy] and [the] support to demand that was made available. So we have made substantial progress in withdrawing that. Have we completed the job? Have we finished the normalisation of our monetary policy as we have called it? No. There is still ground to cover. What we have reiterated now is that we are going to decide the future path and pace of our rate increases on the basis of the data that we have, and we will do so meeting-by-meeting. So we are very much and deliberately turning our back to forward guidance, which is not helpful in the current circumstances given the level of uncertainty that we have pretty much all around.

So what we are saying here is: Number one, we continue and make substantial progress in withdrawing. We will have further rate increases in the future so the normalisation process continues. At some point in time, we will have of course to identify the rate which will deliver the 2% medium-term target that we have. So the destination for us is clear. The exact pace will be determined meeting-by-meeting. To do that, as I said, it will be data dependent and it will be meeting-by-meeting but we will look precisely at three key factors. Just to give you a bit of flavour of how we are going to work in the next meetings that we have.

First, we will look of course at the inflation outlook, which takes into account the evolution of the economy, including the higher likelihood of a recession. So number one is the inflation outlook, this is what we are fighting, it’s inflation, that's the first one. Second is, we will also take into account the measures that we have taken so far because in the last three meetings including this one, we have hiked by 200 basis points. Third, we will also be attentive to the transmission lag of monetary policy and we know, as we do that, that any decision that we make is not going to have an immediate impact on inflation, but will be subject to the time lag that always affects monetary policy decisions. That gives you – I hope – a bit of the flavour of the thinking and the rationale behind those decisions that will be made and those hikes that we will decide in the near future.

I think you had a second question which had to do with our balance sheet, so you covered it all in one question – not all because there are lots of other interesting and decisive matters that we discussed. Well, let us call it the reduction of our APP monetary portfolio. This is a matter that we have discussed at our last retreat amongst ourselves, the governors. We did not discuss the substantive issues today – deliberately – because we decided on a lot of issues. But what we decided is that we would pursue that discussion and we would decide the key principles of the reduction of our APP monetary portfolio in December. So that gives you a bit of an indication of when those key principles will be discussed and decided, and I will be very pleased to inform you about those principles at our next monetary policy meeting in December. And that has to be of course in advance of the decision to implement and to roll out this reduction.

Two questions for you. The first is with respect to the neutral rates. You said at the last meeting – and this is a quote – “What I can tell you is that the further away we are, the larger the step we are taking, which is why we are front-loading now.” Given that the deposit rate is now 1.5

percentage points and the ECB have previously guided to 2% as being the upper end of the range of neutral, is it fair to assume that subsequent hikes will be smaller in magnitude than what you delivered today? That's my first question.

Then my second question – I know it wasn't discussed in the statement – but it's about the anti-fragmentation tool, TPI. When you're looking at this tool and potentially triggering it, what is more important for the ECB; the spread level of a sovereign bonds yield versus Germany, or the absolute yield level?

I think what we decided is clear and straightforward: it's a significant rate increase, 75 basis points, twice in a row. We decided to do that in order to pursue the substantial progress that we have to make in order to withdraw monetary policy accommodation. Our sense is that we have already made significant progress, as I said. We are not done yet. There is more ground to cover, and the question of what that pace will be – what will be the magnitude of future rates – will be determined meeting-by-meeting and will be data dependent, adopting the review of the three factors that I have referred to earlier, which are roughly and quickly: inflation outlook, the measures we've taken so far, and the time lag of our monetary policy. So I cannot tell you much more than that at this point in time. I stand by my comment: significant progress, withdrawing accommodation, more ground to cover. We have acknowledged that more rate [hikes] are in the pipeline, but at which pace, to which level I cannot tell you.

I think we had a slight discussion about how not necessarily helpful this evasive neutral rate is and we decided to stick to withdrawal, completing that job and then taking a step to decide whether we need and how much we need to go further. It is not by simply normalising monetary policy that we will identify and reach the interest rates that are necessary in order to deliver the 2% inflation target, over the medium term, that we have.

Your second question about TPI: we did not discuss TPI at all and we have said – and I have said – very clearly that in order to trigger TPI we will look at a series of indicators, amongst which are the spreads, the yields, but a few other indicators as well. And then we will determine if one country or several countries are or not eligible to TPI on the basis of criteria that I have also described for you in the past, which have to do with debt sustainability, the macro framework as well as fiscal policies. So that stands unchanged.

According to the ECB, at what point does fiscal policy, when it provides aid against inflation, counter monetary policy? Has the British case made a difference?

Second question about systemic risks that you are monitoring: have you identified some financial vulnerabilities in our economy, and which ones?

I think in the present state of uncertainty, with the likelihood of recession looming much more on the horizon and the probability of it having increased, everyone has to do their job. Our job is price stability. This is our primary mandate and we are riveted on that. We are determined, all of us on the Governing Council, to deliver that price stability, which we have defined as the 2% inflation target in the medium term. There is no hesitation on that front. We of course have a dialogue with fiscal authorities and when I sit at the table of the Eurogroup in particular, with colleagues who are finance ministers, I explain the point of our monetary policy, which is to fight inflation and to bring it down back to the 2% in the medium term. And obviously they take into account their imperatives but also the purpose of our mandate, to reduce inflation. I think that I must have repeated many, many times the famous triple T, which is “temporary, targeted and tailored”, which from our perspective will help them address the needs of the most affected by income erosion and also by inflation.

But without fuelling inflation on a broad basis, because that would be utterly counterproductive in that it would require that we take harder monetary policy measures in order to deliver on our mandate. So that is the nature of the debate that we have, and we are all attentive to what happens in neighbouring countries in the euro area as well, and I think that the messages speak for themselves.

You asked me about systemic risk: maybe I would turn it over to you, my dear Vice-President, but I just want to remind you that the ESRB – of which I am the President – has actually called the attention of all supervisors and regulators to the need to really focus on buffers and protection against potential risks.

Vice-President de Guindos: In two weeks, we will be releasing our *Financial Stability Review* and perhaps the main messages that we are going to include there are first, that there is a deterioration of the financial stability landscape in Europe. This has to do with the outlook: lower growth, higher inflation, financial conditions have been tightening. So we will refer to, for instance, the situation of households, corporates, governments. The situation of the banks is positive. Now, banks are much more resilient than they were for instance ten years ago, at the beginning of the financial crisis. But we have some concerns with respect to the non-banks. In the non-banks, taking into consideration the outlook, taking into consideration the situation of inflation, taking into consideration what is happening now in terms of financial conditions, then we have to be very vigilant because we know perfectly that perhaps in a remote corner of the financial system, we can have a situation that could become difficult or complicated, and amplify the financial tightening that we have seen over the last months.

Could you please unpack for me your statement that you expect to raise rates further, because from the statement the word 'several' is missing but in your reply to Carolynn you used the word 'increases' in the plural. So just to be sure: are we looking at several more increases, more than one? The last time, you gave us a number of two-to-four meetings. How does that number look as it stands now?

My second question is regarding TLTROs: I'll be honest with you, having read your statement it's not any more clear to me what you have done. The intention is clear; you want banks to repay early – clear, fine – but how? What are the numbers going to look like? I know a statement is coming in a few minutes, but if you could give us some numbers so I understand what's going on.

I'm so pleased that you are honest with me. I want to celebrate that! Joke apart, you asked me about the number of rate [hikes]and in the past, I did communicate our intention to move towards the neutral rate as a first step in the normalisation process. What I am telling you now is that we have made progress on that normalisation path, but that we still have ground to cover, okay? As we have made that progress, I am also telling you that the ultimate destination that we want to reach is the rate that will deliver the 2% inflation target in the medium term. That rate, by the way, is not necessarily the rate at which we will have considered that normalisation is completed. It may well have to go beyond that, but what I am also telling you is that we are going to decide meeting-by-meeting on the basis of data and using the three categories of considerations that I have mentioned. So it might well be several meetings. Now, how ‘several’ is, that will be determined meeting-by-meeting. We know the path, we know the journey, we know the destination – which is not as clear as a figure that you would like to pin down because we cannot do that. We simply cannot do that.

We are not even, in October, at a meeting when we have a set of data that helps us have projections: outlook for growth, outlook for inflation. We will have that in December and we will take all these elements into account to determine what rate, by how much the rate will be increased. We will see there on the basis of data, on the basis of a possible recession, if it unfolds that way. On the basis of the inflation outlook, which will be influenced by that eventual recession. On the basis of what we have done, on the basis of the lag time, time lag. Then we will decide if at the following meeting we also have to proceed along those lines. As I have said, the rate will be the one that delivers the 2% medium-term target that we have in order to deliver price stability.

Well, on the second point: I am very sorry that you could not read much into the TLTRO description that is included in the monetary policy statement. You will have, by the way, plenty of technical details as to how it works but let me take a few minutes to explain to you why we made that decision. We made that decision for monetary policy reasons. Now, why is that? Because in the first place, when we modified the terms of TLTRO III back in the days of the pandemic, we made that decision for monetary policy reasons in order to incentivise banks to go contrary to what they would normally have done, which would've been to restrict lending. We wanted to support lending and therefore encourage them by offering terms that were very attractive. That was the monetary policy background against which we decided to revise the TLTRO III terms and conditions at the time.

Well, in between we have been utterly surprised by the unprecedented rise in inflation in a very short period of time that called for a change of our monetary policy stance. You've seen that we've moved from negative territory before July to now the 150 basis points for the DFR. We've done that because of the change of circumstances. Now, stance is one thing and it's not enough. We need to have the best possible transmission, and that is the main reason why we are changing the interest rate – and I'll come to that in a second so that you fully understand – that will apply as of November. We're doing that to make sure that there is no obstacle, that there is no deterrent to the transmission of our monetary policy, and that banks will actually transmit the lending rates, which by necessity of our monetary policy stance are higher and have to be higher. That is reason number one.

Reason number two: it is also going to reduce the size of the overall Eurosystem balance sheet, which also goes in the same direction as our monetary policy stance. Third: it is also going to increase the pool of collateral that will be available going forward. We know that this is a sensitive issue give the scarcity of such collateral. The key point is proper transmission of our monetary policy and elimination of obstacles that stand in the way of monetary policy. Now, I am going to tell you in very simple terms because you will find a technical annex which is fairly complicated. But in very simple terms what we are doing is looking out to November 23rd, so it gives time for everyone to adjust and to be prepared. We are raising the special interest rate, which will no longer be the rate that applies up until November 22nd unchanged, but from November 23rd onwards it will be the DFR. That is what we are doing, in addition to which we are opening three additional windows during which banks will have the opportunity to pay back if they so wish. That's what we are doing.

I have one question on the forecasts in September. The ECB assumes a growth rate of 0.9% [for 2023]. Many economists are much more pessimistic, and a few days before the Governing Council meeting several factors materialised concerning gas and so on. Would you say that it's fair to say that we are now in the downside scenario which was outlined there and assumes that the economy will go down by 0.9%, a recession?

My second question is on the initiatives in several countries. Several governments have decided to take measures to curb the rise in energy prices. What's your view on that? Does it help the ECB to fight inflation?

So you're referring to the September projections that we produced at our last monetary policy Governing Council, and we had the baseline scenario, which for 2023 gave us plus 0.9%, and the downside scenario which gave us minus 0.9%. Your question, really, is are we already in that downside scenario, and are we not facing the likelihood of a recession in '23. Number one, we will know a lot better at our next projection exercise in December, when all the data are collected and we can offer you some new projections which will take into account all the developments that take place before the cut-off date that will be shortly before the Governing Council meeting. That's point number one. Point number two, if you look at the downside scenario, many of the assumptions that we have made at the time have not materialised. So in the assumptions we had a complete shortage of Russian gas. We are still receiving some Russian gas. We had assumed no substitution whatsoever, and we have seen in the last few weeks that, thanks to the effort of the Commission, of various member states, there is a phenomenon of substitutions.

We had assumed that commodity prices would continue to rise, and what we have seen is commodity prices declining, and for some of those commodities actually declining significantly. So we are not in the assumptions of the downside scenario. Is that to say that we are in our baseline? No, because there have been developments that are hallowed with uncertainty, but that are clearly – and we say so in the risk assessment in the monetary policy statement – which are clearly to the downside. We will incorporate those risks, if they materialise, in our baseline in December, which will give us a chance to have a more accurate picture for '22, '23 and '24. But when you look at all the intermediate indicators that we observe in between two projection exercise, there is a slowdown at play. Clearly, there is a slowdown. On the positive front, we see less supply bottlenecks. We still see very strong labour, and all the numbers, except the intention to hire, but other than that they are positive. We see fiscal support in discussion at the moment – and I'll come to the end of your question on that front – but pretty much all other indicators are pointing downward.

Now, you referred to some of the measures that were decided by member states, in order to curb energy prices, which are, you will remember, contributing massively to inflation – plus 40.7% from September '22 versus September '21 – it's a massive increase, and a significant contribution to the inflation that we are facing. I was going to give you a Normandy response, but that's not the appropriate way to address it. It is all going to depend on how it is designed, what kind of transfers are operated, and how transfers, if such transfers take place, are financed. Obviously, as we say in the monetary policy statement, we welcome structural reforms that will target the energy markets in particular, and we hope that these reforms can be led and developed by the European Commission for all European members, if at all possible.

I'm sure you've seen the comments by several European leaders, including the French President, the Finish Prime Minister, and most recently the new Italian Prime Minister, who have all issued critical warnings about central banks pushing the economy into recession, crushing demand, and warning against these moves in order to salvage the credibility of the central bank and to fight inflation. What do you make of these remarks?

Secondly, the markets are pricing in further rate rises up to about 3% in your deposit rate. Do you think that's reasonable?

Thank you very much for your two questions. On your first one, we have to do what we have to do. A central bank has to focus on its mandate. Our mandate is price stability, and we have to deliver on that using all the tools we have, and selecting those that will be most appropriate and most efficient. That's what we're doing today by deciding a rate hike and by changing the interest rate of TLTROs going forward. Is that to say that we are oblivious to the risk of recession? Obviously not, and obviously we are concerned, particularly about those who have low income and who are more vulnerable to not only the risk of recession, but to the reality of inflation. When we fight inflation we think of our mandate, but we think about those people who are suffering most from inflation, and we will continue doing so. We believe that in the present set of circumstances, given the instruments and the analysis that we can do, the decision that we made today is the most appropriate in order to restore price stability, which, as you know well, is critically important for not just the stability of prices, but also for the economy to actually prosper and recover. Obviously, recession likelihood numbers resulting therefrom will be taken into account in the analysis that we conduct at our next December meeting, when we have far more in-depth data and information.

On the second question that you ask, just as we cannot and will not be fiscal-dependent, we will not and cannot be financial market-dependent. We take into account financial market expectations; we look at them. This is one of the elements that enter into our considerations, but this is not it. As I said, we've got to do what we've got to do. Our job is price stability. Markets have to do what they have to do.

So as you probably have heard, the eurozone is about to expand, and Croatia will be the next member, and what we have witnessed in previous terms, usually countries that introduce the euro see mild inflation after the introduction. Do you see that we will be seeing a multiplying effect in Croatia, given the raging inflation that we are already seeing in the rest of Europe and in Croatia as well?

My second question is, we hear a lot, especially in Croatia, what the introduction of the euro means for Croatia, but what does it mean for Europe? What's going to be the impact for the eurozone and the rest of the monetary union?

As I said to you and to your colleagues from Croatia, welcome. We're very pleased to have you with us today, and I'm personally delighted that Croatia is joining the club. It's no longer 19 member states; it's 20 member states. As of now, as you probably know, there are already 20 governors at the Governing Council table, because your governor is already participating as an observer, not participating in the votes actually, but he's there with us. I know, because there is a lot of work that has been going on for the last 12 months at least, that a lot of precautions and a lot of measures have been decided by the Croatian authorities, both the Ministry of Finance and the Croatian National Bank, in order to alleviate the risk of price increases that happen inadvertently as a result of conversion. So whether it is by way of required comparator of prices in the previous currency versus euro, or whether it is the special accountability of all the price setters, I think that Croatia has actually learnt from what we all have gone through more than 20 years ago, when the euro was introduced in a much smaller group of countries. I really hope that all Croatian economic actors will feel compelled to actually respect those requirements, which I know are embedded currently now in the draft laws that will be implemented.

Is it going to be multiplied as a result of the fact that there is high inflation, and way-too-high inflation? I certainly hope not, but we will have to see, and I think that it will be the vigilance of the competition and price authorities in Croatia, as well as all of you, to actually make sure that this is not the case. What does it mean to welcome Croatia? Well, first of all, I think it's always nice when you have a new member and an additional member in the family, and we are certainly thrilled about that. It's a country that has made tremendous effort to align with the rules and regulations, to comply with the expectations and the requirements, that has passed all the tests, both under the review of the Commission and with our own legal assessment. So it's a great development that is taking place in very early '23, and it's a vote of confidence for the euro area, and we hope to help each other, and certainly to offer the shield of the euro.

I have two questions, actually. The first one is about Georgia Meloni, the new Italian Prime Minister, that a few days ago used very harsh words to talk about the ECB decision. So do you see those words as a signal of a rising malcontent attitude about the ECB path from a founding member of Europe?

The second one is about the profitability of banks. Are you worried about that, because of the latest decisions about the deposits and rates?

Well, first of all, I don't want to comment on political discourses and I would certainly refrain from that. I will simply say that – or repeat, rather – that we, the central bank, have a mission which is price stability, which is to fight inflation, and what people are most concerned about is inflation, is the cost of living. I think that with, unfortunately, the time lag that goes with monetary policy, which means that our decisions of today are not going to instantly be reflected in the next weeks or months, so the time lag is, in a way, playing against us, but we have to just account for that and know that, but our job is to fight inflation as it stands. Our job is to restore price stability and to bring inflation back to 2%, and to that end select the right interest rate that will deliver that once we have completed the normalisation process.

On TLTROs, honestly, we have only looked at monetary policy transmission. We don't want anything in between the best possible transmission and our monetary policy stance. We are very keen to see that transmission unimpaired, facilitated, accelerated to the maximum possible extent, so that people can benefit from this fight against inflation. TLTRO, as currently calibrated, before the decision that we took this morning, was an obstacle, was a deterrent, and it was our duty, to complement our stance, to facilitate transmission, to actually make that decision.

After changing the rules of the TLTRO, do you feel that you will face important litigation risks? Why have you chosen this way against others like the reverse tiering that was on the table?

Also, do you think that the collateral scarcity problem will be solved with this, because it usually worsens at the year's end?

The first test, the first motivation is monetary policy. Then, of course, like any decision made by the Governing Council, we have to assess what risks, what side effects come with the decision. So it has to be proportionate, it has to be the most efficient of the potential measures, and from all those accounts and taking in due consideration the risk of litigation, we believe that this is the best monetary policy decision that we can take in order to accelerate the transmission.

On the collateral question that you raised, I'm not suggesting that it is the panacea, and that it will fix the entire problem of collateral scarcity. I think that was taken into consideration in the decision-making process of the Governing Council, but as a third component. It will so happen that, if the banks decide to repay earlier, there will be more collateral available, and as such it will facilitate addressing the scarcity, but it's not the panacea, and not, certainly, the main motivation. You're right that at year-end things become a bit more tense. We are monitoring that very carefully.

Sorry I couldn't join you in person today. I just wanted to ask two questions, firstly on fiscal policy. You've been very clear about the goals that fiscal policy should have in relation to inflation, but has any of the decisions taken by European governments so far encouraged discussion amongst policy members about the impact that they might have on monetary policy?

Then my second question is on the changes to the terms of TLTROs. Could you just talk a little bit about what you anticipate the real economy impact to be of these changes in these terms?

Next time, please come. Frankfurt is beautiful and sunny. We have the benefit of a very warm October, which is helping in many ways, even though it is the stigma of something that is far more difficult and dangerous for us all. I'm talking about climate change here, not regular matters that many of you deal with. On the fiscal policy, first of all, you have to know that the Commission is doing a very thorough job in assessing the design, the impact of the energy measures that are decided by various member states, and in doing so, the Commission takes into account the two Ts. I'm in favour of three Ts, but it doesn't matter. They take into account how temporary those measures are, and how targeted they are. I'm also concerned that they should be tailored, incentivising the saving of energy by those people who are eligible to the measures that are decided. So the Commission does that job, and has a dialogue with the member states when they decide to implement changes. I'll give you an example of a measure which has been adopted by some member states, which is to actually provide for a particular price which is typically lower than market price, which may have some variation up or down, but a particular price up to a certain amount of consumption, which is either determined with reference to the past, or with reference to the potential necessary consumption. Anything in excess of that, then, is invoiced at market rates. That's what I would regard as targeted and temporary by nature, because it's framed in that fashion, and tailored as well, because it gives an incentive to actually stay below the threshold to those people who are eligible. That's just by way of example of what, in our view, can actually work.

On TLTROs, let me just repeat that what we want is the best possible transmission of our monetary policy, and by removing the very attractive rates that were [made] available for monetary policy considerations two years ago, we are focusing on the transmission. That will necessarily lead, given that borrowing costs might be higher, to lending costs that will be higher as well. That is inevitable, given the monetary stance that we have.

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